

2017 review of the year

2017 – upside surprises

Many commentators, including us, were wary going into 2017. In the event, economic growth and markets surprised on the upside:

- US markets hit new highs despite three interest rate rises.
- Perceived low/no growth areas such as Europe and Japan burst into life.
- Asia's technology stocks surged.
- India's stock market soared despite tax reforms holding back its economy.
- Even in the UK, where overseas investors are still eyeing Brexit nervously, smaller companies rebounded from their post-referendum blues.
- The pound strengthened against the US dollar but was flat against the euro.
- The oil price rose, reflecting global economic growth and geopolitics.

Those commentators who were cautious going into 2017 are more nervous now but there are some who think markets will continue to climb as long as companies' earnings continue to grow.

At QuotedData, we published notes on 24 investment companies in 2017 (see page two) as well as our regular monthly and quarterly publications. We plan to expand our coverage further in 2018. We have also updated last year's well received **Independent Guide to Investment Companies**. This will be distributed even more widely in 2018, helping to build awareness and understanding of investment companies amongst savers.

Regular visitors to our website will have noticed that we are stepping up coverage of biotechnology and healthcare companies. Our new biotech team is helping to inform our coverage of investment companies focused on this area. As our analyst team expands this is a trend that you can expect to see extended to other sectors.

Investment companies sector median discount

Time period 01/1/2017 to 31/12/2017

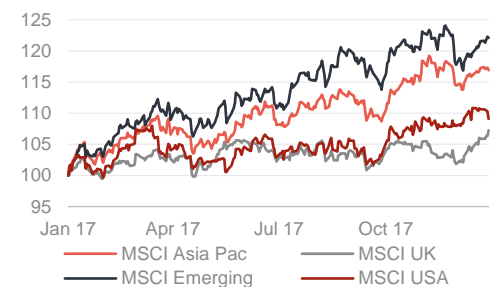


Source: Morningstar, Marten & Co

Exchange Rate	31/12/17	Chg. on year (%)
GBP / USD	1.3513	+9.6
USD / EUR	0.833	-11.6
USD / JPY	112.69	-3.8
USD / CHF	0.9743	-3.5
USD / CNY	6.5068	-4.8

MSCI Indices rebased to 100

Time period 01/01/2017 to 31/12/2017



Source: Bloomberg and Marten & Co. Figs in GBP

	31/12/17	Chg. on year (%)
Oil (Brent)	66.87	+11.9
Gold	1302.8	+11.1
US Tsy 10 yr yield	2.4054	-1.4
UK Gilt 10 yr yield	1.190	+7.3
Bund 10 yr yield	0.423	+79.4

Investment company notes published in 2017

- Fidelity closed-end fund review – **January 2017**
- Standard Life Private Equity – **Dividend doubled to 4.0%**
- Aberdeen Frontiers Market – **Direct investing**
- JPMorgan Russian – **Russian recovery**
- Seneca Global Income & Growth – **Celebrating five years since strategy change**
- Martin Currie closed end funds snapshot – **March 2017**
- Strategic Equity Capital – **Business as usual**
- India Capital Growth – **Full steam ahead**
- Henderson Diversified Income Trust – **Shift to onshore**
- Polar Capital Global Healthcare – **Extended life, new objective**
- Drum Income plus REIT – **Delivering on promises**
- Ecofin Global Utilities and Infrastructure – **Structural growth, low volatility and income**
- Blue Capital Alternative Income – **Uncorrelated yield opportunity**
- Seneca Global Income & Growth – **Changing tack**
- Standard Life Private Equity – **Loading the portfolio**
- Herald Investment Trust – **Backing growing businesses**
- Premier Energy & Water – **“Significant latent value”**
- Fidelity closed end funds review – **July 2017**
- Strategic Equity Capital – **Quality small cap focus**
- John Laing Environmental Assets Group – **Diverse renewables exposure**
- Seneca Global Income & Growth – **Steady reduction in equities exposure**
- JPMorgan Russian – **Low valuations and rising yields**
- Aberdeen Emerging Markets – **Access to a wealth of talent**
- Pacific Horizon – **Top of the Pops!**
- Henderson Diversified Income – **Dear Prudence**
- Ecofin Global Utilities and Infrastructure – **Delivering the goods**
- Aberdeen Standard European Logistics Income – **“Regular and attractive income”**
- Jupiter Emerging and Frontier Income – **A very successful fundraise**
- Premier Global Infrastructure Trust – **Evolution not revolution**
- Herald Investment Trust – **Who wants to be a billionaire?**
- Standard Life Private Equity – **A good year, more to come?**

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Baillie Gifford has been managing investments since 1909. Our success has been built on finding good investment opportunities for clients through extensive independent research. Our fundamental analysis and judgement over the years have helped us to become one of the UK's largest independent investment management groups with over £173 billion of funds under management and advice as at 30 September 2017*



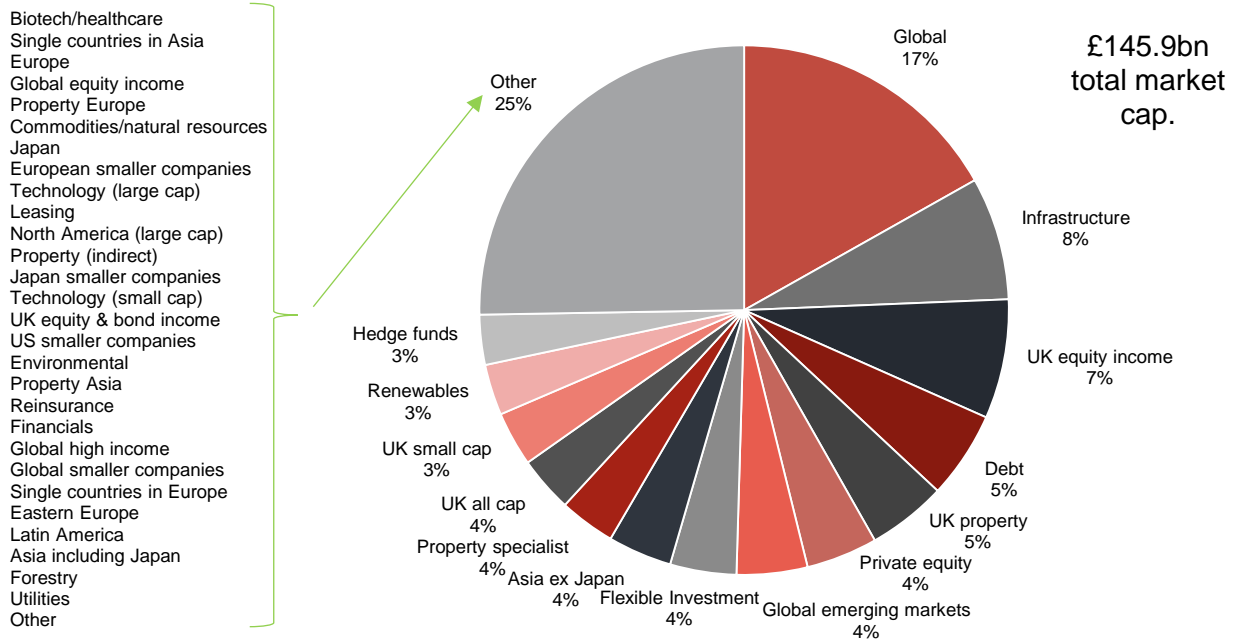
Baillie Gifford is one of the largest investment trust managers in the UK with a range of seven trusts. We also have an extensive range of OEIC sub-funds and manage investments globally for pension funds, institutions and charities.

*Source Baillie Gifford & Co As with all stock market investments, your capital is at risk

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The sector at the end of 2017

Figure 1: Split of the investment company market by AIC sector at 31 December 2017



Source: Morningstar, Marten & Co

It has been a good year for the investment companies sector. In 10 out of 13 equity-focused AIC sectors, the median investment company beat an equivalent index (Asia, North America and Global emerging being the exceptions). The median discount narrowed from 8.7% to 5.9% (as you can see in the graph on the front page). 19 new issues contributed £2.8bn to the sector but a few big funds left us, leaving a net inflow of £2.0bn.

Performance Data

While there are always a few exceptions, on the whole, 2017 was a good year for investment companies.

Performance by sector

Figure 2 shows how the major investment company sectors performed over the course of 2017 in price terms and the best and worst funds in each category. At the start of the year, many commentators felt that markets would struggle to make headway in 2017. In the event, every single category in the table made money, on average.

In a world of more confident markets, smaller companies did especially well. Small cap sectors in Japan, Europe and the UK occupy three of the top four slots in the table.

Figure 2: Best and worst performers by sector in price terms over 2017, ranked by sector median

Sector	Best performing Fund	change %	Sector median. %	Worst performing Fund	Change %
Japan smaller co.s	Baillie Gifford Shin Nippon	+53.8	+50.4	JPMorgan Japan Smaller	+44.7
European smaller co.s	TR European Growth	+57.7	+40.5	Montanaro European Smaller	+34.4
Japan	Baillie Gifford Japan	+47.3	+34.9	Schroder Japan Growth	+19.8
UK smaller co.s	River & Mercantile MicroCap	+62.2	+34.5	Gresham House Strategic	+10.5
Asia – single country	India Capital Growth	+59.6	+29.2	Vietnam Holding	+12.4
Europe	Jupiter European Opp.s	+33.0	+27.5	BlackRock Greater Europe	+23.0
Asia ex Japan	Pacific Horizon	+52.1	+25.4	Pacific Assets	+10.4
Global emerging	Templeton Emerging	+32.5	+21.6	Ashmore Global Opp.s USD	-7.4
Global	Independent	+71.3	+21.1	Lindsell Train	-6.2
Global equity income	Blue Planet	+28.4	+17.3	Securities Trust of Scotland	+6.8
Biotech / healthcare	Syncona	+51.5	+16.5	Polar Capital Global Healthcare	+6.3
Flexible investment	Miton Global Opportunities	+36.6	+14.8	JZ Capital Partners	-4.3
UK income & growth	JPMorgan Income & Capital	+35.1	+13.5	British & American	-18.9
UK	Manchester & London	+70.0	+13.2	Sanditon	-17.4
Natural resources	Baker Steel Resources	+63.5	+11.4	Golden Prospect Precious Metals	-14.5
Hedge	Alternative Liquidity	+126.7	+9.9	Pershing Square Holdings	-14.1
UK property	Picton Property Income	+15.1	+9.8	LXB Retail Properties	-38.1
Private equity	Dunedin Enterprise	+40.3	+8.9	Qannas Investments	-36.1
Renewable energy	Bluefield Solar Income	+15.1	+8.8	Renewables Infrastructure Group	+5.1
Debt	Honeycomb	+22.5	+7.7	Ranger Direct Lending	-12.5
North America ¹	JPMorgan American	+11.2	+5.5	Jupiter US Smaller Companies	-1.5
Infrastructure	3i Infrastructure	+15.8	+4.5	Infrastructure India	-56.9
Leasing	Amedeo Air Four Plus	+8.4	+2.8	SQN Asset Finance Income	-15.7
Property specialist	Camper & Nicholsons	+18.5	+1.6	South African Property	-33.0
European property	Phoenix Spree Deutschland	+72.3	+0.6	Ottoman Fund	-41.2

Source: Morningstar, Marten & Co. Notes: 1) North America includes large cap and small cap.

Baillie Gifford Shin Nippon and its sister fund **Baillie Gifford Japan** did best from the resurgent Japanese stock market. The Nikkei 225 Index has been hitting new highs as the economy grows and companies become more shareholder friendly. It is testament to the strength of the market that even the worst performing funds in the Japanese small cap and large cap markets produced decent returns for their shareholders, well ahead of comparative indices.

It is a similar story in Europe where although small cap specialist, **TR European**, was the best performing European-focused fund by some margin, in both the small cap and large cap sectors the worst performing fund beat equivalent indices. **Jupiter European Opportunities** returned to form in 2017 after its UK exposure held it back in 2016.

In the UK Smaller Companies sector, one stock, in particular, made a dramatic contribution to the performance of **River & Mercantile Micro Cap**. It also helped propel **Independent** to the top of the Global sector. Blue Prism, a software company focused on robotic processes, rose by 183% over 2017, although at one stage it was up 3.78x on the year. The laggard in the UK smaller companies sector, **Gresham House Strategic**, had a significant cash weighting for much of the year. The worst performing global fund was **Lindsell Train**. Its premium had reached unrealistic levels at the start of the year but warnings from the company helped calm things down. Its underlying NAV performance was not bad.

Geographically, some of the best returns came from emerging markets, notably China and India. Good stock picking and **India Capital Growth's** Indian small/mid cap exposure helped propel it to the top of the Asia - single country sector. **Vietnam Holding** got the wooden spoon. Poor stock picking and a boardroom dust-up weighed on the fund. Other Vietnamese funds did much better.

The technology sector was buoyant during 2017 and this shone through in Asia in particular. This helped propel **Pacific Horizon** to the top of its peer group. By contrast, **Pacific Assets**, which was light in this area, suffered.

Templeton Emerging's new manager, Carlos Hardenberg, has done a great job in revamping its portfolio and the results are showing in its performance. **Ashmore Global Opportunities** is winding itself up. The rump of its portfolio did not have a great year.

Blue Planet took the crown in the global equity income category by virtue of discount narrowing; in NAV terms it was the worst performing fund in its peer group. No.2 was **JPMorgan Global Income & Growth**, a fund which is managed as a global growth fund and tops its dividend up from capital reserves. It returned 24.1% in price terms over 2017. **Securities Trust of Scotland** disappointed. It was the second worst performing stock in its peer group over 2017 and this may have been a contributory factor to its widening discount.

In the biotech/healthcare sector **Syncona**, the fund that came from the Battle Against Cancer Investment Trust (BACIT), caught investors' attention after one of its investments listed on the stock market. Syncona's premium is now quite racy, about 35%. **Polar Capital Global Healthcare** has the broadest portfolio in the sector. With biotech driving performance, it was left behind a little.

Miton Global Opportunities, a fund of listed funds, had a great year. This was helped by discount narrowing for many of its investments and some strong performance from areas such as Berlin housing (the principal focus of **Phoenix Spree Deutschland** which topped the European property sector). **JZ Capital's** inability to control its discount and failure to make headway with its NAV, despite a handful of profitable realisations, left it languishing.

JPMorgan Income & Capital is a split capital trust. The gearing provided by its zeros helped propel it to the top of the table in the UK income & growth category. Second in the peer group was **Shires Income** which returned 31.7%. **British & American**, whose fortune is determined largely by its large positions in a handful of biotech companies, and whose share price has become divorced from reality, lost investors money in 2017.

Manchester & London's lead over its UK peer group is somewhat artificial as the portfolio now resembles that of a technology-biased, global fund. Had it been in the global category, it would have come second behind **Independent**. Second in the peer group was **Henderson Opportunities** which returned 32.7%. **Sanditon** had another poor year, down to poor stock picking we think.

There was a big dispersion of returns in the commodities and natural resources sector. **Baker Steel Resources** saw its discount narrow considerably, even though its performance lagged that of **BlackRock World Mining** by a large margin in NAV terms. **Golden Prospect**'s performance was counterintuitive given the rise in the gold price over 2017.

Alternative Liquidity's returns are entirely down to discount narrowing. It managed to return some cash to shareholders in 2017. **Pershing Square** shot itself in the foot repeatedly, mainly as a result of its decision to invest in Valeant Pharmaceuticals some years ago.

UK Property funds delivered decent returns on average. **Picton Property Income** topped the leader board but **LXB Retail**'s sector focus is much out of fashion given the growth of online shopping.

Dunedin Enterprise made a number of disposals from its portfolio and these profitable exits helped pushed its NAV higher. Regular returns of cash kept its discount tight. By contrast, **Qannas Investments**, which is in the throes of a reorganisation of its portfolio, dived in the run up to a set of disappointing interim results in September.

Bluefield Solar's high yield kept it at the forefront of a solid year for the renewable energy sector.

Honeycomb, which is managed by Pollen Street Capital (which took on the management of **P2P Lending** during the year), had a respectable 2017 and saw its premium rise. **Ranger Direct Lending** dribbled out a series of NAV writedowns related to loans it had made to Argon Credit through Princeton Alternative Income Fund. We are waiting to see what steps the board will take to revitalise its performance.

JPMorgan American was the best of what was otherwise a disappointing set of returns from funds investing in North America. A low exposure to technology was the probable cause for this.

3i Infrastructure pulled off some spectacular deals towards the end of the year, turning the bulk of its portfolio into cash. **Infrastructure India** is struggling to refinance its debt.

Amedeo Air Four Plus remains popular with investors despite nervousness over the second hand value of its A380 aircraft. **SQN Asset Finance Income** struggled with a couple of investments.

The property specialist sector is still overburdened with funds that struggled in the wake of the credit crisis but the tidy up continues. Both **Camper & Nicholsons** and **South African Properties** are expected to delist shortly and **Ottoman** will not be far behind.

Best performing funds

Figures 3 and 4 show the best performing individual funds in 2017 in both price and NAV terms.

Figure 3: Best performing funds in price terms in 2017

	%
Alternative Liquidity Fund	+126.7
Phoenix Spree Deutschland	+72.3
Independent	+71.3
Manchester & London	+70.0
Baker Steel Resources	+63.5
River & Mercantile UK Micro Cap	+62.2
India Capital Growth	+59.6
TR European Growth	+57.7
JPMorgan Chinese	+57.1
Baillie Gifford Shin Nippon	+53.8

Source: Morningstar, Marten & Co

Figure 4: Best performing funds in NAV terms in 2017

	%
JPMorgan Chinese	+54.0
Duke Royalty	+51.2
Pacific Horizon	+50.1
Independent	+49.8
Baillie Gifford Shin Nippon	+45.7
Atlantis Japan Growth	+42.9
India Capital Growth	+42.0
JPMorgan Asian	+41.2
River & Mercantile UK Micro Cap	+40.9
Fidelity China Special Situations	+40.8

Source: Morningstar, Marten & Co

We discussed all of the funds in Figure 3 above, in the commentary relating to Figure 2, with the exception of **JPMorgan Chinese**. This fund was the runner up in the Asian single country fund category. Looking at Figure 4, the strength of the Chinese, Indian and Japanese stock markets in sterling terms shines through. **Independent**, as mentioned above, benefited from some punchy stock selection decisions, including Blue Prism (which was a big driver of **River & Mercantile Micro Cap**'s performance) and Fevertree, the fast-growing tonic water business. **Duke Royalty** kickstarted its new royalty finance operation in 2017 and started paying regular dividends. It raised fresh funds at a considerable premium to NAV and this accounts for a sizeable portion of its NAV gain over the year.

Worst performing funds

Figures 5 and 6 show the worst performing individual funds in 2017 in both price and NAV terms.

Figure 5: Worst performing funds in price terms in 2017

	%
Infrastructure India	-56.9
LXB Retail Properties	-38.1
Qannas Investments	-36.1
Masawara	-28.4
Blue Capital Alternative Income	-27.5
CatCo Reinsurance Opportunities	-24.8
Ranger Direct Lending	-23.2
Gulf Investment Fund	-22.4
Dolphin Capital Investors	-19.1
Damille Investments II	-19.0

Source: Morningstar, Marten & Co

Figure 6: Worst performing funds in NAV terms in 2017

	%
Alternative Liquidity Fund	-43.7
Blue Capital Alternative Income	-26.6
Infrastructure India	-25.6
Damille Investments II	-24.2
LXB Retail Properties	-23.7
Better Capital 2012	-20.9
Dolphin Capital Investors	-19.8
Gulf Investment Fund	-19.2
CatCo Reinsurance Opportunities	-16.3
Qannas Investments	-13.2

Source: Morningstar, Marten & Co

Many of the funds listed in Figure 5 are discussed in relation to Figure 2 above.

Masawara dived after its largest shareholder took his stake above 90% and announced the fund would delist from AIM.

Looking at Figure 6, which shows NAV moves, **Alternative Liquidity Fund** may have topped the list of share price risers but Morningstar believes that it also saw a fall in its NAV thanks to dollar weakness and write downs in the value of some investments.

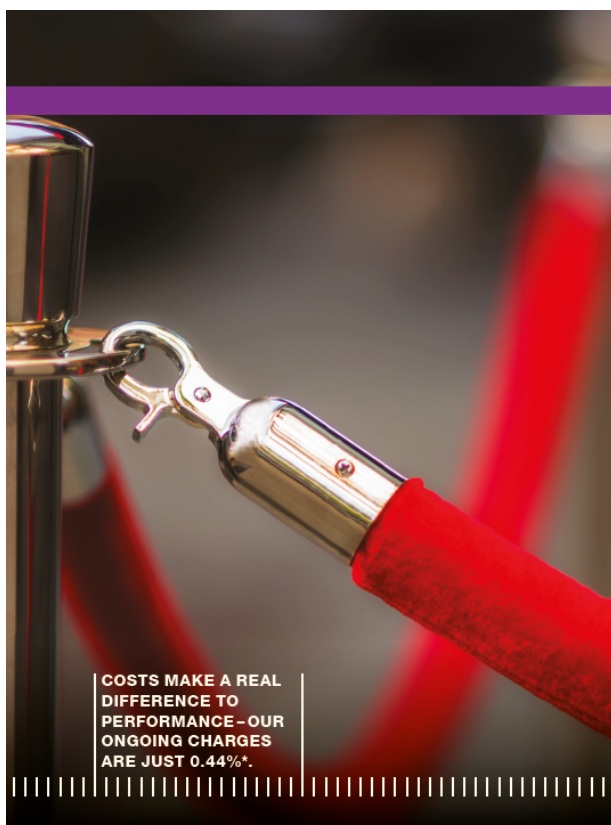
Blue Capital Alternative Income and **CatCo Reinsurance Opportunities** were hit hard by losses as a result of the three powerful hurricanes that hit Texas, Puerto Rico and Florida as well as causing devastation across the rest of the Caribbean and the Gulf of Mexico.

Damille Investments II was hurt when portfolio company, Sistema, was hit by a lawsuit from Rosneft.

Better Capital 2012 had to write down its investments in fashion brand, Jaeger; replacement doors and windows business, Everest; and office supplies business, SPOT.

Perennial disappointment, **Dolphin Capital**, wrote down the value of its Aristo development business by €144m during the year.

Gulf investment Fund (formerly Qatar Investment Fund) fell after Qatar's neighbours imposed an economic blockade on the country.



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Standardised past performance to 30 September**:

	2013	2014	2015	2016	2017
Scottish Mortgage	35.9%	27.6%	4.2%	37.0%	30.4%
AIC Global Sector Average	23.6%	12.1%	5.1%	21.8%	21.6%

Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

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*Ongoing charges as at 31.03.17. **Source: Morningstar, share price, total return as at 30.09.17. Your call may be recorded for training or monitoring purposes Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSM). BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

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Money in and out of the sector

New issues

2017 was a bumper year for new issues with 19 brand new funds and one reconstruction that between them raised £2.8bn for the sector.

Figure 7: New fund launches

Fund	Launch date	Issue size £m	Premium / (discount) (%) 31/12/17	Investment Focus
BioPharma Credit	27/03/17	607.1	+6.0	Debt secured against royalties or patents issued by biotech companies
PRS REIT	31/05/17	250.0	+7.9	Private rented sector housing in the UK
Greencoat Renewables	25/07/17	237.8	+11.7	Europe ex UK renewable energy
Triple Point Social Housing REIT	08/08/17	200.0	+6.5	Social housing
Aberdeen Standard European Logistics Income	15/12/17	187.5	+4.1	Regional distribution centres and 'last mile' urban warehouses
Residential Secure Income	12/07/17	180.2	+2.8	Social housing
Warehouse REIT	20/09/17	150.0	+7.0	Logistics assets in the UK
Impact Healthcare REIT	07/03/17	146.2	+3.5	Healthcare real estate
LXI REIT	27/02/17	138.1	+0.9	Diversified long let UK property
Supermarket Income REIT	21/07/17	100.0	+3.7	UK supermarkets

Source: Morningstar, Marten & Co

In addition to the funds listed in Figure 7, we saw launches from:

- **Jupiter Emerging & Frontier Income**, one of the largest new equity-focused funds in recent times with £90m raised at launch and more since.
- **Gabelli Merger Plus**, a sister fund to **Gabelli Value Plus**, focuses on merger arbitrage situations. It raised \$100.1m from investors.
- Property fund, **AEW UK Long Lease** raised £80m.
- **Tufton Oceanic Assets**, a fund investing in ships; it raised \$91m.
- **EJF Investments** raised £69m.
- **Downing Strategic Micro-Cap**, a focused fund investing in very small UK companies, raised £55.6m.
- **CIP Merchant Capital** became the fourth fund to launch with a focus on applying private equity techniques to investing in UK equities. It raised £55.0m.
- **ScotGems** raised £50m for its global small cap mandate.
- **TOC Property Backed Lending** raised just £17.3m at launch but has expanded a little since.

We should also mention **Aberforth Split Level Income Trust**, a rollover vehicle launched for Aberforth Geared Income Trust. It started life with £190.5m of equity, £18m of which came in as fresh money.

Liquidations, de-listings and trading cancellations

A long list of funds disappeared in 2017 as the sector continued the tidying up of those funds that suffered in the credit crunch. The funds that have left the sector are largely minnows but there were a few really big departures.

By far the largest fund to leave us was **Kennedy Wilson Europe** which merged with Kennedy Wilson Holdings. **SVG Capital** sold its private equity portfolio to **Harbourvest** and then returned the proceeds to shareholders over the year. **M&G High Income**, the largest split capital fund, came to the end of its life. A small amount of money was rolled over into **JPMorgan Elect**. **Aberdeen UK Tracker** offered investors a choice of a cash exit or a rollover into **Aberdeen Diversified Income & Growth**; 61% went for the cash option. **London & St Lawrence** decided to liquidate. It was one of a number of funds that Aviva had held a large stake in, but has recently been disposing of these positions. **Threadneedle UK Select** offered shareholders a choice of cash or a rollover into **Henderson High Income**, 42% opted for cash. **Industrial Multi Property** was taken over by **Hansteen**. **Aberforth Geared Income** was reconstructed to become **Aberforth Split Level Income Trust**, £164m worth of shares took the cash option. **Prospect Japan** was taken over by its manager.

Also leaving the sector were: **Terra Catalyst**, **DW Catalyst**, **New City Energy**, **Duet Real Estate Finance**, **Public Service Properties**, **Nimrod Sea Assets**, **Ludgate Environmental**, **European Real Estate**, **Acencia Debt Strategies**, **Tejoori** and **Asian Growth Properties**. On the way out soon are: **Trinity Capital**, **Masawara** and **Ottoman Fund**.

Money in and out of existing funds

Infrastructure, reinsurance, property and leasing make up the bulk of the funds in Figure 8. All of these offer investors above average income from assets other than equities, which reflects the low to negative real returns available from cash and investment grade bonds. The only fund that bucks this trend is **Scottish Mortgage** which, through decent performance as well as cash inflows, is by far the largest investment company. **CatCo Reinsurance Opportunities** deserves a mention as it appears in Figures 5 and 6 as one of the worst performing funds yet still managed to raise \$543m from investors. The hope is that the losses incurred by the reinsurance industry in 2017 will feed through into higher reinsurance premiums and therefore higher returns for CatCo in 2018.

Figure 8: Money raised

Fund	£m
HICL Infrastructure	528
CatCo Reinsurance Opportunities	418
International Public Partnerships	410
Tritax Big Box REIT	350
Greencoat UK Wind	340
Amedeo Air Four Plus	312
Civitas Social Housing	302
Scottish Mortgage	296
Globalworth Real Estate	232

Source: Morningstar, Marten & Co

Figure 9: Money returned

Fund	£m
Electra	1,700
Alliance Trust	991
BH Macro	266
Better Capital 2009	222
Pantheon International	202
Scottish Investment Trust	139
Mercantile	121
JPEL Private Equity	106
JPMorgan American	104

Source: Morningstar, Marten & Co

Looking at Figure 9 (the numbers are estimates compiled from our monthly and quarterly notes), **Electra** paid out £1.7bn in special dividends and this was the largest return of capital in 2017. Alliance Trust bought back roughly £1bn worth of its shares as it removed an activist investor, Elliott Advisers, from its register and implemented a

discount control mechanism. **BH Macro** held a big tender offer in April 2017. **Better Capital 2009** returned money to shareholders after it completed the sale of its stake in Gardner Aerospace. The largest shareholder in **Pantheon International** converted part of its stake into an asset-linked loan note which will be redeemed over time. **Scottish Investment Trust** bought a large stake back from Aviva in addition to its normal buy-backs. It was a similar story for **Mercantile**. **JPEL Private Equity** has been returning cash to shareholders via a series of compulsory redemptions of shares. **JPMorgan American** has seen a steady stream of selling despite beating its S&P500 Index benchmark over the past year.

Look out for our new independent guide to quoted investment companies which will be published shortly.



Significant rating changes

Figure 10: Biggest percentage point changes to discounts and premiums by sector over 2017

Sector	Greatest improvement in rating	%	Change in sector median. %	Greatest deterioration / lowest improvement in rating	%
European smaller co.s	TR European Growth	+15.7	+12.4	Montanaro European Smaller	+6.2
Japan smaller co.s	Fidelity Japanese Values	+9.2	+8.5	Atlantis Japan	+5.3
Europe	Henderson European Focus	+10.4	+6.1	BlackRock Greater Europe	+1.9
Flexible investment	Aberdeen Div. Inc. & Growth	+10.0	+5.0	RIT Capital Partners	-1.7
Renewable energy	Bluefield Solar Income	+8.4	+4.7	Greencoat UK Wind	+0.2
Debt	Honeycomb	+14.0	+4.1	Ranger Direct Lending	-10.2
Global	Independent	+13.0	+3.5	Lindsell Train	-50.9
UK small companies	River & Mercantile MicroCap	+13.5	+3.5	Athelney	-2.4
Global equity income	Blue Planet	+15.0	+3.2	Securities Trust of Scotland	-4.7
Biotech / healthcare	Syncona	+26.7	+3.2	BB Healthcare	+2.0
Japan	Baillie Gifford Japan	+9.0	+2.9	Aberdeen Japan	+0.6
Asia ex Japan	Schroder Asia Total Return	+6.4	+1.9	Pacific Assets	-3.8
Asia – single country	India Capital Growth	+10.2	+1.7	JPMorgan Indian	-1.2
UK property	Secure Income REIT	+6.0	+1.6	LXB Retail Properties	-17.9
European property	Phoenix Spree Deutschland	+33.4	+1.2	Ottoman	-43.5
Property specialist	Camper & Nicholsons	+22.7	+1.1	Ground Rents Income	-17.8
Emerging markets	Africa Opportunity	+9.9	+0.8	Ashmore Global GBP	-12.1
UK all companies	Manchester & London	+23.8	+0.6	Sanditon	-8.7
Infrastructure	GCP Infrastructure	+7.7	+0.5	Infrastructure India	-7.1
UK equity income	JPMorgan Income & Capital	+9.5	+0.2	Edinburgh Investment Trust	-6.4
North America	Middlefield Canadian Income	+1.7	-0.6	BlackRock North American	-6.2
Private equity	Dunedin Enterprise	+26.0	-0.8	Better Capital 2009	-37.2
Hedge funds	Alternative Liquidity	+45.0	-1.7	Pershing Square	-3.9
Commodities/Resources	Baker Steel Resources	+33.7	-2.0	BlackRock Commodities Inc.	-10.4

Source: Morningstar, Marten & Co

Figure 10 shows how discounts and premiums moved over the course of 2017. Consistent with the general narrowing of discounts across the investment company industry, very few sectors saw their median discounts widen. The change in sentiment and investment performance in Europe and Japan is evident in the table.

Aberdeen Diversified Income & Growth was on an anomalously wide discount within the flexible investment sector. Its discount narrowed from 11% to 1% over the year.

Ranger Direct Lending's discount widening, from 16.4% to 26.6%, is probably a reaction to the NAV write downs that we referred to on page 7.

Lindsell Train experienced one of the most dramatic moves as its ridiculous 66% premium, at the start of the year, moderated to 15%. It is still the highest in its sector.

Better Capital 2009's discount widened sharply after it made the £222m distribution to shareholders that we referred to on page 12.

Alternative Liquidity started the year on a very wide discount of 82% and finished the year on a 37% discount. It is gradually turning a very illiquid portfolio into cash. There has been a drop in its asset value along the way but a series of cash returns have increased confidence in the fund.

Major news stories

- **Alliance Trust** bought back Elliott's stake and became a multi-manager best ideas fund
- **Fair Oaks Income** put forward proposals to extend its life which were approved by shareholders
- **Aberdeen Frontier Markets'** proposals to shift to direct investing were backed by investors
- **BlackRock Smaller Companies** said it wanted to remove the cap on its AIM exposure
- **JPMorgan American's** board and manager said they would revamp its investment approach
- Stuart Widdowson resigned as manager of **Strategic Equity Capital**
- SQN became manager of a revamped **SME Loan Fund**
- Alan Borrows retires from **Seneca Global Income & Growth**
- **Martin Currie Asia Unconstrained** said it would pay dividends from capital
- **Infrastructure India** said it couldn't pay back a working capital loan and later its auditor refused to give an opinion on its accounts
- **JZ Capital** will use buybacks rather than capital dividends to control its discount
- **Phaunos Timber Fund** lost its continuation vote and its manager resigned
- Rodger McNair stepped down as manager at **F&C UK High Income**
- **Blue Capital Alternative Income** said its manager, Adam Szakmary, had resigned
- **P2P Global** said its manager would merge with Pollen Street Capital
- **Aberdeen Emerging** announced a new dividend policy
- **VinaCapital Vietnam Opportunities** introduced a dividend policy
- **Pantheon International** said it would combine its share classes
- David Goldman became co-manager of **BlackRock Income & Growth**
- **Qatar Investment Fund** said it would broaden its geographic remit
- **Baillie Gifford Japan** said Sarah Whitley is retiring
- Premier Energy & Water became **Premier Global Infrastructure**
- **Ranger Direct Lending** is in talks with a number of potential co-managers
- **Aberdeen Private Equity's** board called time on the fund
- **RIT Capital** sold **Strategic Equity Capital's** manager
- Sarah Emly, co-manager of both **JPMorgan Claverhouse** and JP Morgan Income & Capital, passed away
- **Empiric Student Property** has a new acting chief executive
- Sam Isaly left Orbimed, the manager of **Biotech Growth** and **Worldwide Healthcare**, after harassment allegations

Outlook for 2018

Rather than us pontificating on how events may unfold in 2018, here are a few recent comments from managers and directors drawn from our latest economic and political summary that you may find interesting.

Alasdair McKinnon, manager, **Scottish Investment Trust**: *“there have been a number of years of good returns and there are now signs of complacency in investors' attitude to risk. To some extent this is understandable as the world is awash with cheap money and the curators of this capital are desperate for a return. Symptoms of this excess are the appearance of get-rich-quick schemes such as cryptocurrency investments and the fact that an acronym (FANG) has been attributed to a narrow group of stocks which are all viewed as sure-fire winners.*

This is not to say that the wider market will fall but more to observe that the risks currently being taken in some areas may not be justified by the future returns.”

.....

Nick Greenwood, manager of **Miton Global Opportunities**: *“The consolidation of the private client stockbroking community into a small number of major chains continues apace. This has significant implications for the investment trust movement. This is because these brokers were until relatively recently the dominant buyer of trusts.... On a more positive note, there is increased interest from the self-directed investor.”*

.....

Ed Beal, manager of **Dunedin Smaller Companies**: *“valuations, particularly for good quality companies, remain elevated, and any disappointment in the levels of growth has the potential to result in a de-rating of equity valuations”*

.....

Adam Avigdori and David Goldman, managers, **BlackRock Income & Growth**: *“We see increasing pressure in the UK consumer space as rock bottom household savings are coupled with rising household debt levels.”*

.....

Nick Train, manager, **Finsbury Growth & Income**: *“We know that currently some shareholders worry about Brexit and other macro-economic or political issues, but we continue to believe that the most rational way to respond to these concerns is to work on the following assumption: Everything will work out just fine in the end.”*

.....

Ciaran Mallon, manager, **Invesco Income & Growth**: *“There is further recovery potential in the Brexit-hit stocks.”*

.....

The **full note** has much more detail and many more comments on topics as diverse as Europe, China, India, healthcare, uranium prices and climate change.

We wish you good luck with all your endeavours in 2018!

QuotedData

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